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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003154

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SUBJECT: KMT LY SPEAKER WANG ON DEFENSE BUDGET, "DEPOSE  
CHEN" PROTEST

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

11. (C) Summary: Kuomintang (KMT) Legislative Yuan (LY) Speaker Wang Jin-pyng told the Director and DDIR on September 11 that "the time had arrived" for the LY to resolve the defense budget question. Wang said he and KMT Chairman Ma Ying-jeou expect the LY to approve funding for the purchase of P-3C anti-submarine warfare (ASW) aircraft, PAC-II missile upgrades, and an initial "feasibility study" of submarines. Turning to ongoing protests against President Chen, Wang suggested that Chen's Pan-Green supporters have not abandoned him. The "Depose Chen" protest is "ninety-nine percent" Pan-Blue, and therefore President Chen faces little real pressure to step down. End Summary.

Pan-Blue Consensus on Defense Budget?

12. (C) During a September 11 meeting to introduce AIT Deputy Director Robert Wang, KMT LY Speaker Wang Jin-pyng told the Director that he and Chairman Ma agreed that "the time had arrived" for the KMT to push for resolution of the defense budget question. PFP Chairman James Soong, however, is threatening to tinker with the specifics of various weapons platforms, Wang said, which could complicate matters. According to Wang, Soong has suggested that Taiwan need buy only eight or ten P-3C aircraft, instead of the twelve airframes proposed by the original special defense budget package. Wang suggested that Soong is concerned about significant arms purchases because he fears damaging his "very good relationship with Beijing." Nonetheless, Wang continued, Soong was beginning to "come around," noting that KMT Chairman Ma Ying-jeou himself would press Soong again to cooperate on the defense budget. Wang also urged the Director to meet with Soong again, to persuade him to drop his minor objections.

13. (C) Wang said he had convinced Ma that PAC-II upgrades were not banned by the 2004 failed "missile defense referendum." Ma was willing to purchase the PAC-II upgrades, Wang continued, but would oppose the purchase of new PAC-III missile batteries until after the three-year referendum ban expired in March 2007. When the PAC-IIIs do come up for consideration, Wang said, the LY should, for political reasons, buy at least nine batteries, so that Taipei, Taichung, and Kaohsiung can receive three batteries each. In

this way, Wang explained, each of Taiwan's major cities will have at least some protection, not just Taipei. Demonstrating his regional perspective, Wang noted in passing that Japan has purchased a number of PAC-III systems in order to cope with the growing DPRK missile threat, the implication being that Taiwan should follow suit.

#### Increased Spending to 2.85 Percent in Doubt

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14. (C) The LY will discuss funding an NT\$600 million (US\$20 million) submarine feasibility study, Wang said, and might also discuss the purchase of some newer-model F-16 aircraft. Wang was less optimistic about the LY increasing overall military spending to 2.85 percent of GDP. Wang said Taiwan is facing a budgetary crisis and slow economic growth. Legislators will be forced to justify increasing military spending at the expense of social and economic investment. The Director countered that Taiwan's defenses had atrophied from years of insufficient spending, and noted that Chairman Ma himself had agreed that Taiwan should gradually increase its military spending to 3 percent of GDP to redress this shortfall. Wang said the people should discuss with their representatives whether it made sense to increase military spending in the midst of Taiwan's current financial straits.

15. (C) Wang predicted that if all goes smoothly, the LY could begin its defense budget deliberations by late October or early November. Because the defense budget is part of the larger annual budget bill, Wang explained, a final decision on the defense budget will not be made until the annual budget is finally passed, in late December, or even next January, if the LY fall session spills over into 2007.

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#### Protests Won't Affect Chen

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16. (C) Wang told the Director that "ninety-nine percent" of the participants in Shih Ming-te's ongoing "Depose Chen" protest are Pan-Blue supporters. President Chen knows this, he said, and therefore feels no real pressure from the movement to step down. Wang disapproved of KMT Chairman Ma's recent performance, saying that Ma had changed his position toward the protest too many times and had been "naive" to propose that the DPP LY caucus should offer its own proposal to recall President Chen. The Director observed that Ma, as a possible future president, had obvious reasons to be concerned about the lack of respect being shown to Chen, the sitting president. Wang argued that Chen's personal flaws had damaged his political reputation, making him vulnerable to attack, but had not affected the office of the presidency.

#### Comment

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17. (C) Wang's remarks suggest that progress could be made on the defense budget during this upcoming LY session, but he also left us with cause to be concerned. First, we have heard these kinds of promises before, only to be greeted with one excuse (defense referendum "veto" on missiles) after another (the NUC/NUG debacle). Second, even Wang seems to be building wiggle room into his optimistic predictions: PFP Chairman Soong could hinder progress by dwelling on minor issues, or other factions in the LY could object to increased military spending at the expense of social and economic investment programs. What really comes across from this exchange is the continuing horse-trading going on behind the scene as the LY prepares to enter into autumn session next week.  
YOUNG